


TOBACCO OBSERVER

EXCISE TAXES IN '89? LAWMAKERS DEBATE FEDERAL AND STATE LEGISLATION



While Congress is on its way to approving a \$1.2 trillion budget resolution for fiscal 1989, which begins October 1, 1988, tax opponents are gearing up for a battle against increased federal excise taxes on cigarettes and other goods that may arise as a result of last-minute revenue shortfalls.

BUDGET FOOLERY

Lawmakers publicly acknowledge the economic indicators used to draft the 1989 budget resolution might be too optimistic and could result in the need for additional revenues. Many also feel the budget resolution uses creative accounting methods to comply with budget targets established two years ago in the controversial Gramm-Rudman-Hollings Deficit Reduction Act (GRH).

If the federal government falls short of the funds needed to meet GRH budget targets, Congress and the President would be forced either to increase taxes or to cut spending on federal programs. An increase in the federal excise tax on cigarettes—viewed by many as a relatively quick and easy method to raise revenues—is one alternative.

1989 FEDERAL BUDGET

The 1989 budget resolution stems, in part, from the unprecedented two-year agreement reached by lawmakers at last year's budget summit. The agreement calls for new taxes and spending cuts for both 1988 and 1989, but no increases in federal excise taxes.

WHAT'S AHEAD IN 1988?

While the most controversial elements of a 1989 federal budget already have been agreed to, work remains before a final budget is approved. Congress and the President could yet include federal excise tax increases on cigarettes or other items any time before a budget is finalized.

There's a new player in the budget process as well: a 12-person, bi-partisan National Economic Commission. The commission was established to help Congress and the President solve the nation's

recurring budget deficits. Its recommendations are expected next March and could include proposals for major tax increases—including an increase in cigarette taxes.

1987 REVISITED

Last year, excise tax opponents lobbied lawmakers successfully against including any excise tax increases in the final 1988 budget.

The tobacco industry and others stood firmly against excise tax increases. These included labor unions, minority groups, consumer organizations, farm interests,

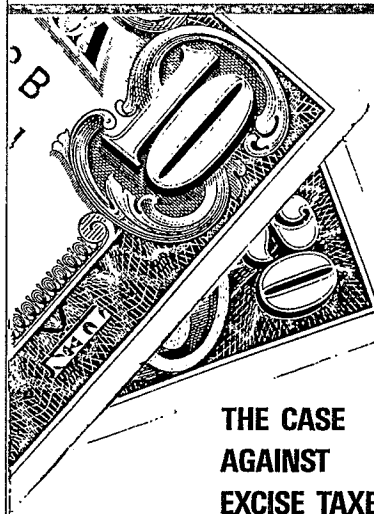
business associations, and state and local government organizations. (See related article on page 4.)

ANTI-EXCISE TAX MESSAGE

The Tobacco Institute and others argued that excise taxes have a negative effect on the jobs and families of everyday working people, specifically:

- Excise taxes are regressive, weighing heaviest on low- and middle-income families;

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THE CASE AGAINST EXCISE TAXES

What's so bad about excise taxes?
It's a question of fairness.

\$ Excise taxes are regressive

In other words, their impact on low- and middle-income Americans is much greater than on wealthier taxpayers—as much as 27 times greater. This is unfair.

\$ Excise taxes discriminate against minorities

Blacks, Hispanics and other minorities have higher levels of poverty and unemployment, making them more vulnerable to income loss due to regressive taxes.

\$ Excise tax hikes undo 1986's tax reform

For low- and middle-income people, a significant package of excise tax hikes would cost more than they gained from the tax cuts enacted in 1986—while the wealthy would keep most of their gain!

\$ Excise taxes are hidden taxes

Americans historically have opposed "secret taxes." Excise taxes, which are hidden in the price of goods and services, are just that—a secret tax.

\$ Excise taxes harm small businesses

Small businesses, including the majority of minority-owned businesses, are especially vulnerable to price increases caused by excise tax hikes. They may lose the ability to compete with larger establishments.

\$ Excise taxes are arbitrary

They randomly discriminate against consumers and producers of selected goods and services, leaving others untouched.

\$ Excise taxes are bad fiscal policy

They reduce consumer spending power, limit capital investment, slow growth and encourage unemployment.

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TURNING UP THE HEAT: FARMERS STAND UP TO EXCISE TAXES

The summer of 1987 was a hot one for the excise tax issue in Washington, D.C. Farm groups, led by the American Agriculture Movement (AAM), made it even hotter for excise tax supporters by mounting a formidable campaign to oppose excise tax increases, including those on tobacco.

AMERICAN AGRICULTURE MOVEMENT

AAM represents more than 150,000 farmers in 34 states and Canada. Its membership includes several thousand tobacco farmers in Maryland, Kentucky, Virginia and Tennessee.

*"Excise taxes hit
farmers in more
than one way."*

"AAM is the result of too many years of suffering. We banded together to make sure that the voices of family farmers across the country are heard by America's legislators," David Senter, AAM's Executive Director, says.

AVENUES OF ACTION

To get its messages out, Senter says, AAM relies on a fully staffed Washington, D.C. office, experienced lobbyists and one of the largest PACs among farm groups.

"We believe in exercising every option to get our point across—even the unconventional ones," Senter notes. "Tractorcade 1979, which involved thousands of farmers driving their tractors right up to Capitol Hill to protest the government's farm policy, is a perfect example of our creative lobbying," he adds.

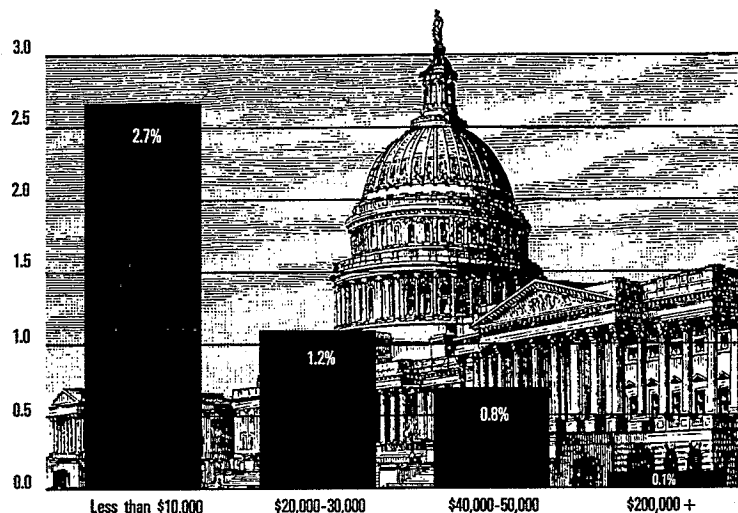
AAM has been particularly vocal on the excise tax issue. The farmers took the excise tax battle on as one of their primary causes in 1987. Throughout the year they—

- wrote letters to key House and Senate members,
- visited personally with members of Congress,
- submitted testimony to Congress,
- wrote articles and op-eds for farm publications, and
- published and distributed brochures on excise taxes.

"Everyone knows that excise taxes take

Federal Excise Taxes: The Income Bite

The Congressional Budget Office calls tobacco excise taxes the most regressive of all excises. Families making less than \$10,000 per year pay 27 times more in excise taxes than those with annual incomes greater than \$200,000. That's just the federal bite. Heavy state excises, not included in the chart, make matters worse.



Source: The Congress of the United States, Congressional Budget Office, 1987.

more from the poor and less from the rich. But excise taxes hit farmers in more than one way," Senter says.

"First, excise taxes take an indispensable part of a family farmer's income and make survival that much harder. Secondly, excise taxes on products such as beer, tobacco and liquor reduce consumption and hurt the farmers growing barley, hops and tobacco."

THE FARM TAX

Earlier this year, AAM identified an excise tax aimed directly at farmers. When the budget agreement was passed in December 1987, a new tax had been quietly included. This tax placed a 15-cent tax on every gallon of diesel fuel a farmer buys for farm use. This new tax has a twist—at the end of the year farmers can fill out an IRS form and get their money back. [Historically, farmers had been exempt from the fuel tax because the funds from that tax were used to pay highway maintenance.]

"So Congress is borrowing money from America's family farmers for a year," Senter says. "We decided this ludicrous proposal deserved more attention than it received at the time of passage. We have been working with several members of Congress and other farm groups to get this law repealed."

To repeal the law, Senter says, "AAM has launched an aggressive media and education campaign to make sure Con-

gress understands how farmers feel about all excise taxes, including this backdoor maneuver." Efforts include a pamphlet on the issue which has been distributed to farmers nationwide, an editorial that has been mailed to papers across the country and a heavy lobbying effort.

AAM's efforts appear to be paying off. The new diesel fuel excise tax has received increased media coverage and there is an effort in Congress to have the tax repealed.

*"As long as these
taxes are on the
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of farmers will be
in danger."*

THE BATTLE CONTINUES

AAM has proved that excise tax increases can be fought and defeated with a strong voice and a carefully organized effort. Senter says the group will continue to work against the most unfair tax on record—the excise tax.

"Excise taxes will always hurt America's farmers and low income families," Senter says. "As long as these taxes are on the books, America's tax system will be unbalanced and the survival of our farmers will be in danger."

Levying Excise Taxes on Tobacco Products is Unfair and Unsound Fiscal Policy

When federal and state legislators need to raise revenue, they often turn to excise taxes as a source of income. The Tobacco Observer talked to Richard Wagner, professor of economics at Florida State University, about tobacco excise taxes. Wagner is a specialist in public choice and public finance and co-author with Robert Tollison of *Smoking and the State: Social Costs, Rent Seeking and Public Policy*.

■ **The Observer:** Supporters of excise taxes often claim that excises—including taxes on tobacco products—are an easy way to raise needed revenues. After all, most excise taxes are only a few cents to a dollar per product. What is wrong with that?

□ **Wagner:** It's not fair. Tobacco products are among the most heavily taxed of all products. A pack of cigarettes that sells for \$1.20 would sell for around 80 cents without excise and sales taxes. This is a tax of 50 percent—an extraordinarily heavy burden. As a general principle, people should not have to bear different tax burdens simply because of differences in the things they buy.

■ **The Observer:** The federal budget deficit continues to grow, with estimates of revenue shortfalls for 1989 ranging from \$130 to \$180 billion. Why not make smokers pay their fair share by increasing cigarette excises to help reduce the deficit?

□ **Wagner:** A long-term economic policy rather than a short-term "quick fix" is necessary to solve the country's budget problems. It is unfair to look to smokers to shoulder the burden of the federal deficit.

Because most smokers pay the same taxes everyone else does, they already pay their "fair share." But smokers also pay the excises that nonsmokers don't, so smokers pay more than a fair share.

Tobacco excises already generate more than \$4.7 billion in revenue for the federal government annually. Although it is a large sum of revenue, it represents a very small percentage of the total deficit.

These taxes are regressive—it is unsound policy to tax those least able to pay. Increasing excise taxes would wipe out the relief low- and middle-income families gain under the Tax Reform Act of 1986.

■ **The Observer:** But the excise tax on tobacco has not been increased at the federal level in several years.

□ **Wagner:** And for good reason. While the federal government continues to collect 16 cents in excises per pack, state governments have steadily increased taxes levied on tobacco products. Currently, the average state excise is about 19 cents per pack.

State legislators oppose increases in the tobacco excise tax at the federal level because it impairs their ability to raise revenues. Last year alone, state treasuries collected more than \$4.6 billion in cigarette excises.

■ **The Observer:** Some people have proposed to earmark tobacco taxes for a wide range of spending programs ranging from education to sewer construction to pollution control. With so much

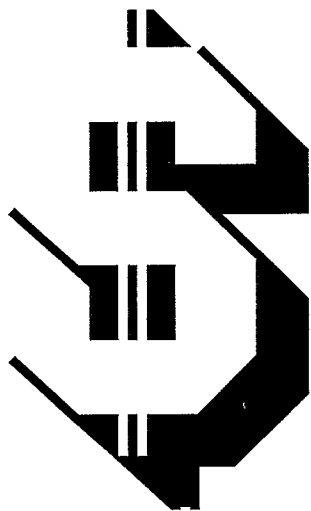
general fund money going to other goods and services, isn't earmarking an appropriate way of funding special projects?

□ **Wagner:** No. Earmarking is an indirect way of charging prices to users of a government service. For instance, gasoline taxes are earmarked for roads. People who make greater use of the roads generally pay for that usage through the gasoline tax. Earmarking tobacco taxes for education, sewer construction and pollution control would not represent an indirect way of charging smokers for a service that government provides them. There is no basis for saying that smokers place a greater demand on these systems than do nonsmokers.

■ **The Observer:** How would an increase in the cigarette excise tax affect the tobacco industry and the economy?

□ **Wagner:** Badly. When the federal cigarette excise tax was doubled in January 1983 from 8 to 16 cents, the industry estimated 14,600 workers lost opportunities for jobs in the manufacture and distribution of tobacco. This, coupled with the loss in sales of 29.6 million pounds of tobacco, resulted in a \$800 million reduction in the Gross National Product (GNP).

The tobacco industry makes a significant contribution to the nationwide economy. According to a recent study conducted by Chase Econometrics, tobacco supports approximately 710,000 jobs in the core tobacco industry and other related industries and generates approximately \$18.9 billion in wages annually. The industry contributes an estimated \$31.5 billion to the GNP. These contributions are often overlooked when legislators are searching for revenue. But they cannot be ignored.



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- Excise taxes would negate the benefits gained by low- and middle-income families in the 1986 tax reform bill; and
- Excise taxes reduce economic growth and encourage unemployment.

STATE LEGISLATION

While Congress and the White House battled to produce a federal budget, state and local governments struggled to produce budgets of their own. Many introduced bills calling for new or increased taxes on cigarettes to finance existing programs, as well as those previously subsidized by the federal government such as schools, highways and prisons.

No one would argue that good schools aren't important, that highways shouldn't be safe or that prisons shouldn't be

secure. But government programs that benefit all of society should be supported by general tax dollars and not by arbitrary or selective taxes on cigarettes and other consumer products.

"\$39.71 FOR EVERY MAN, WOMAN AND CHILD"

Smokers paid more than \$9.6 billion in federal, state, and municipal excise taxes—or the equivalent of \$39.71 for every man, woman and child in the United States—in the fiscal year ending June 30, 1987. This figure could increase dramatically overnight unless cigarette excise tax measures are stopped. Write a letter to your local, state and federal officials expressing your opposition to excise taxes, or contact The Tobacco Institute for more information on how you can help in the fight against unfair taxation.

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ORGANIZATIONS SPEAK OUT AGAINST EXCISE TAXES

A broad spectrum of interests and organizations throughout the country are speaking out against excise taxes and for a "civilized" tax policy that is fair to all Americans. Following is a sample of what they are saying:

FROM AGRICULTURE

AMERICAN FARM BUREAU FEDERATION

"Higher excise taxes have an adverse trickle-down effect on the farmers whose commodities, such as tobacco, grains, and wine grapes, go into tobacco and alcohol products."

Grace Ellen Rice,
Associate Director,
Washington Office

FROM BUSINESS

COALITION AGAINST REGRESSIVE TAXATION (CART)

"An excise tax increase would raise the taxes of low-income taxpayers disproportionately and would substantially more than offset the income tax reductions these taxpayers received from the Tax Reform Act of 1986."

"An Analysis of the Regressivity of Excise Taxes," Policy Economics Group, Peat Marwick Main & Company (Submitted to CART, May 1987)

CHAMBER OF COMMERCE OF THE U.S.A.

"Additional tax increases of any type will impair the vitality and competitiveness of American business and impede economic growth."

Richard W. Rahn,
Vice President and Chief Economist

FROM CONSUMER REPRESENTATIVES

CITIZENS FOR TAX JUSTICE

"The biggest threat to tax reform is that Congress may attempt to meet its 1988 budget targets through stiff increases in federal excise taxes."

"Meeting the Revenue Targets in the 1988 Budget: Will Tax Reform be Extended or Undermined?" May 1987

COALITION ON HUMAN NEEDS

"If there is any tax that is more unfair to the poor than an excise tax, we hope that Congress never discovers it."

Susan Rees,
Executive Director

CO\$T (CITIZENS OPPOSED TO SECRET TAXATION) COALITION

"How can our representatives even think of proposing an increase in excise taxes when excise taxes fall most heavily on the backs of those least able to pay?"

The Rev. Robert J. McEwen, S.J.,
Chairman

FROM ORGANIZED LABOR

AFL-CIO

"We believe that turning to excise taxes now would represent a breach of faith with the American people. Increasing excise taxes merely creates more inequity in the tax system. They are a bad tax policy."

Rudolph A. Oswald,
Director, Economic Research

FROM MINORITY GROUPS

CONGRESSIONAL BLACK CAUCUS

"For all poor families, even a modest increase in excise taxes will take more than all of the tax relief afforded them in

the 1986 tax bill. This will considerably magnify the incidence, prevalence and the enormity of poverty in the United States."

Rep. Mervyn M. Dymally (D-Cal.),
Chairman

THE LEAGUE OF UNITED LATIN AMERICAN CITIZENS

"When the median income of Hispanics is only \$19,000 per year and 29 percent of all Hispanic-Americans live below the national poverty line, it is evident that any increase in excise taxes would have a severe and detrimental effect on the Hispanic-American community."

Oscar Moran,
National President

FROM GOVERNMENT

CONGRESSIONAL BUDGET OFFICE

"The average increase in [excise] taxes as a percentage of total income would be about twice as large (more than three times as large in the case of tax on beer or tobacco) for families with incomes between \$10,000 and \$20,000 compared to families with incomes of \$50,000 or more."

"The Distributional Effects of an Increase in Selected Federal Excise Taxes," January 1987

As a smoker, or even as a nonsmoker who believes that increasing excise taxes on tobacco and other consumer products is unfair and unsound fiscal policy, take this opportunity to get involved.

The Tobacco Institute can provide information on the excise tax issue and the contribution of tobacco to the nation's economy. Detailed information on these subjects as well as many others is available from The Institute upon request, free of charge. Please contact us at:

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TOBACCO OBSERVER

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The *Observer* presents information and comment on public events of interest to the tobacco industry. It recognizes that there is diversity of opinion about tobacco use and that charges against tobacco are widely publicized while less attention is given to differing views, which are included in its columns. Its aim is to aid full, free and informed discussion in the public interest, in the conviction that the smoking and health controversy must be resolved by scientific research.

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